



STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

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July 12, 2004

TO: Senator Lisa Brown, Chair
Senator Joseph Zarelli
Representative Jack Cairnes
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FROM: Chang Mook Sohn, Executive Director
Office of the Forecast Council

SUBJECT: July 10, 2004 REVENUE COLLECTION REPORT

General Fund-State collections were a little weaker than expected this month. Tax receipts totaled \$1,065.7 million in the June 11 - July 10, 2004 period. This was \$9.2 million (0.9 percent) less than expected. Revenue Act (retail sales, business & occupation, use and public utility taxes), liquor and property tax receipts were weaker than expected this month. The shortfall from these taxes was partially offset by stronger than expected real estate excise, estate and unclaimed property transfers.

Despite the revenue shortfall for the month, economic news continues to be mostly positive. The U.S. economy added 112,000 jobs in June. While this was less than expected and less than half the 234,000 jobs added in May, it is still the 10th consecutive month of job gains. Average weekly earnings also were up in June, for the sixth month in a row. The Washington economy is also continuing to show improvement. The Washington economy added jobs in May for the sixth consecutive month and is likely to add jobs in June.

Revenue Act receipts were \$20.8 million, 3.0 percent, less than the estimate for the month which primarily reflects May 2004 business activity of monthly taxpayers. After three strong months, growth slowed this month. Revenue Act receipts adjusted for special factors and new legislation were only 3.2 percent above the year-ago level. This was less than half of last month's 7.1 percent increase and well below the 10.0 percent gain two months ago. While disappointing, the deceleration was not surprising. Revenue growth was expected to moderate due to rising interest rates, the diminishing impact of federal tax cuts and the impact of higher gas prices. While the deceleration of growth in the current period is a little more than expected, given the volatility of monthly growth, it is not a cause for concern. Cumulatively, Revenue Act growth is still healthy. For the last four months, Revenue Act payments have averaged 6.3 percent higher than a year ago and for the last twelve months, collections are on average 4.3 percent higher. The forecast assumes that while rising interest rates, less fiscal stimulus, and higher gas prices will slow growth, they will not derail the recovery.

Preliminary data on tax payments of 9,906 large taxpayers who filed electronically for the current month show moderate growth across-the-board. Tax payments of businesses in the retail trade and food services sector were up 4.2 percent while non-retailers reported a 4.1 percent increase. Last month tax payments by retailers were up 7.2 and non-retailers reported an 8.9 percent gain. For the current month all three-digit retail NAICS sectors except non-store retailers reported an increase in tax payments with three of twelve sectors reporting double-digit gains. The double-digit gains were reported by building materials/garden equipment retailers (+11.8 percent), gas stations and convenience stores (+10.9 percent) and furniture and home furnishing retailers (+13.9 percent). Growth in other retail trade sectors however, was generally weak. Tax payments by motor vehicle and parts retailers were just 2.1 percent above the year-ago level and food stores reported a gain of only 0.1 percent. While in total non-retailing sectors reported moderate growth, there was considerable variation by sector. Major non-retail sectors with increase this month include: manufacturing (+17.2 percent), construction (+5.5 percent), wholesales trade (+4.0 percent), education and health services (+7.6 percent) and transportation and warehousing (+20.3 percent). Sectors reporting declines were: utilities (-2.0 percent), finance and insurance (-17.2 percent), and professional, scientific and technical services (-12.5 percent).

Non-Revenue Act General Fund taxes collected by the Department of Revenue were \$12.1 million above the estimate for the month. Higher real estate excise tax (+\$5.0 million), estate tax (+\$3.2 million), unclaimed property transfers (\$4.4 million) and cigarette tax payments more than offset weaker than expected property and liquor tax payments.

The rate of increase in real estate activity is moderating but is still strong. Real estate activity (closings in May which reflect tax payments to the state in June) increased 18.8 percent. This is down from the 31.2 percent gain the prior two months but is still stronger than assumed in the June forecast. The growth continues to be driven by higher prices. In the most recent month, transactions increased 1.8 percent while the value per transaction was up 16.7 percent. For the first five months of calendar 2004, the number of real estate transactions has increased 1.7 percent while the value per transaction is up 16.4 percent.

Department of Licensing General Fund-State collections, which primarily reflect various license fees, were \$396,000 below the estimate for the month.

The attached Table 1 provides a comparison of collections with the June 2004 forecast for the June 11 – July 10, 2004 collection period and cumulatively since the June 2004 forecast. The cumulative variance is virtually the same as the variance for the month because the monthly estimates in the June forecast were adjusted to reflect actual collections through June 10, 2004. Table II compares revised collections figures to the preliminary numbers reported in last month's collection report.

CMS: cg

Attachments

TABLE 1
Revenue Collection Report
July 10, 2004 Collections Compared to the June 2004 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
June 11 - July 10, 2004				
Department of Revenue-Total	\$1,069,294	\$1,060,530	(\$8,764)	-0.8%
Revenue Act** (1)	692,084	671,247	(20,837)	-3.0%
Non-Revenue Act(2)	377,210	389,283	12,073	3.2%
Liquor Sales/Liter	8,756	8,065	(690)	-7.9%
Cigarette	4,635	5,163	527	11.4%
Property (State School Levy)	275,864	275,036	(827)	-0.3%
Estate	7,284	10,531	3,247	44.6%
Real Estate Excise	51,113	56,132	5,019	9.8%
Timber (state share)	0	0	0	NA
Other	29,559	34,356	4,797	16.2%
Department of Licensing (2)	5,555	5,159	(396)	-7.1%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$1,074,849	\$1,065,690	(\$9,160)	-0.9%
Cumulative Variance Since the June 2004 Forecast (June 11, 2004 - July 10, 2004)				
Department of Revenue-Total	\$1,069,294	1,060,530	(8,764)	-0.8%
Revenue Act** (3)	692,084	671,247	(20,837)	-3.0%
Non-Revenue Act(4)	377,210	389,283	12,073	3.2%
Liquor Sales/Liter	8,756	8,065	(690)	-7.9%
Cigarette	4,635	5,163	527	11.4%
Property (State School Levy)	275,864	275,036	(827)	-0.3%
Estate	7,284	10,531	3,247	44.6%
Real Estate Excise	51,113	56,132	5,019	9.8%
Timber (state share)	0	(0)	(0.0)	NA
Other	29,559	34,356	4,797	16.2%
Department of Licensing (4)	5,555	5,506	(50)	-0.9%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$1,074,849	\$1,066,036	(\$8,814)	-0.8%

1 Collections June 11 - July 10, 2004. Collections primarily reflect May 2004 activity of monthly taxpayers.

2 June 1-30, 2004 collections.

3 Cumulative collections, estimates and variance since the June 2004 forecast; (June 11 - July 10, 2004) and revisions to history.

4 Cumulative collections, estimates and variance since the June forecast; (FebJune 2004) and revisions to history.

5 Lottery transfers to the General Fund

* Based on the June 2004 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

TABLE 2
June 10, 2004 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
April 11 - May 10, 2004				
Department of Revenue-Total	\$1,213,401	\$1,214,149	\$748	0.1%
Revenue Act (1)	671,182	671,182	(0)	-0.0%
Non-Revenue Act(2)	542,219	542,967	748	0.1%
Liquor Sales/Liter	8,070	8,070	0	0.0%
Cigarette	4,002	4,002	(0)	-0.0%
Property (State School Levy)-net	441,500	441,500	0	0.0%
Property tax collections	441,500	441,500	0	0.0%
transfer to the Student Achievement Acct.	0	0	0	NA
Estate	8,899	8,855	(44)	-0.5%
Real Estate Excise	58,293	58,293	0	0.0%
Timber (state share)	1,160	1,908	748	NA
Other	20,295	20,339	44	0.2%
Department of Licensing (2)	4,119	4,292	173	4.2%
Lottery (2)	0	0	0	NA
Total General Fund-State***	1,217,520	1,218,441	\$921	0.1%

Cumulative Receipts: February 11 - May 10, 2004 & Revisions to History

Department of Revenue-Total	3,522,502	\$3,523,250	\$748	0.0%
Revenue Act (3)	2,675,748	2,675,748	(0)	-0.0%
Non-Revenue Act(4)	846,754	847,502	748	0.1%
Liquor Sales/Liter	30,476	30,476	0	0.0%
Cigarette	16,952	16,952	0	0.0%
Property (State School Levy)-net after transfer	526,458	526,458	0	0.0%
Property tax collections	526,458	526,458	0	0.0%
transfer to the Student Achievement Acct.	0	0	0	NA
Estate	44,090	44,046	(44)	-0.1%
Real Estate Excise	173,374	173,374	0	0.0%
Timber (state share)	3,592	4,340	748	NA
Other	51,811	51,855	44	0.1%
Department of Licensing (4)	8,932	9,120	188	2.1%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$3,531,434	\$3,532,370	\$936	0.0%

Preliminary. Reported in the June 10, 2004 collection report.

1 Collections May 11 - June 10, 2004. Collections primarily reflect April 2004 business activity of monthly taxpayers.

2 May 1-31, 2004 collections.

3 Cumulative receipts since the February 2004 forecast: February 11- June 10,2004 & revisions to history.

4 Cumulative receipts since the February 2004 forecast (February - May) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

Revenue Act Net Collections

Year-over-Year Percent Change

